



Questions and Answers

Q2 2013 Corporate System Resolution Costs and 2014 Assessment Range

This document addresses questions that may arise in connection with the NCUA Board's recent announcement of the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) assessment range for federally insured credit unions in 2014. These assessments are one component of NCUA's broader strategy to provide funding to cover the costs of the corporate system resolution program, a program approved by the NCUA Board in September 2010 to address the failure of five corporate credit unions (corporates).

The most recent corporate system resolution cost information in this document is based on mid-year 2013 data. These are point-in-time estimates. The cost and NCUA Guaranteed Notes (NGN) information is updated twice per year on our website based on the most recent analysis of the performance of legacy assets from the five failed corporates. The cost projections are subject to change based on the future performance of the legacy assets, future legal recoveries, as well as key variables such as unemployment, housing, and other factors.

Table 1. Resolution Costs (in billions)

Formula	a	- b	= c	- d	= e
Resolution Costs	Total Projected Resolution Costs	Credit Union Member Capital in Corporates	Remaining Projected Resolution Costs	Total Assessments to Date	Net Remaining Projected Assessments over the Life of the Stabilization Fund
2010 July	\$13.9 to \$16.1	\$5.6	\$8.3 to \$10.5	\$1.3	\$7.0 to \$9.2
2011 Q2	\$10.8 to \$15.1	\$5.6	\$5.2 to \$9.5	\$3.3	\$1.9 to \$6.2
2011 Q4	\$11.6 to \$14.9	\$5.6	\$6.0 to \$9.3	\$3.3	\$2.7 to \$6.0
2012 Q2	\$11.6 to \$14.5	\$5.6	\$6.0 to \$8.9	\$4.1	\$1.9 to \$4.8
2012 Q4	\$11.3 to \$13.6	\$5.6	\$5.7 to \$8.0	\$4.1	\$1.6 to \$3.9
2013 Q2	\$10.2 to \$12.0	\$5.6	\$4.6 to \$6.4	\$4.8	-\$0.2 to \$1.6

For further discussion of resolution costs, visit this website location:

Corporate System Resolution Costs
<http://www.ncua.gov/Resources/Corps/RCost/Pages/FundCosts.aspx>

Q1. What are the cumulative losses to date on the legacy assets once held by the failed corporates?

Through the end of Q2 2013, the legacy assets included in the NGN portfolio have incurred \$7.0 billion in losses (realized losses and implied write-downs) since the inception of the NGN program. These cumulative losses exceed the \$5.6 billion of credit union member capital in the failed corporates (see the last row of the column labeled "b" in table 1), underscoring that those institutions were insolvent.



Q2. What is the total projected range of resolution costs over the life of the Stabilization Fund as of the end of Q2 2013?

As of June 30, 2013, NCUA projects the total corporate system resolution costs to range from \$10.2 billion to \$12.0 billion. (See the last row of the column labeled “a” in table 1.)

Q3. How much have federally insured credit unions collectively paid to cover corporate losses and resolution costs?

Credit unions with membership shares (capital) in one of the failed corporates have borne losses in corporate capital investments totaling \$5.6 billion. In addition, all federally insured credit unions have paid Stabilization Fund assessments of \$4.8 billion in total, including the 2013 assessment of approximately \$0.7 billion. Therefore, the cumulative cost borne to date by credit unions through assessments and the loss of corporate capital investments is \$10.4 billion. (See the last row of the columns labeled “b” and “d” in table 1.)

The total Stabilization Fund assessment amount of \$4.8 billion should not be confused with the separate National Credit Union Share Insurance Fund (Share Insurance Fund) premiums, which are not part of the corporate system resolution costs.

Q4. How much more in Stabilization Fund assessments does NCUA project federally insured credit unions will have to pay?

As of the end of Q2 2013, NCUA projects the range for future net assessments will be from -\$0.2 billion to \$1.6 billion over the remaining life of the Stabilization Fund, which expires in 2021. (See the last row of the column labeled “e” in table 1.)

Q5. Does the net remaining projected assessment range for Q2 2013 include the \$1.417 billion of gross proceeds from the JPMorgan Chase settlement?

No. NCUA must first determine how the settlement proceeds will flow through the individual liquidation estates of the failed corporates. After that, NCUA will make a Treasury repayment and recalculate the net remaining assessment range. While the exact difference has not yet been calculated, the settlement will significantly reduce the remaining range of assessments. The settlement will be incorporated into future assessment range calculations, including a special, high-level website update as of the third quarter of 2013 that we will release in the coming months (well in advance of our next scheduled update in April of next year).

Q6. Since a portion of the assessment range is negative, is it possible that credit unions will receive a refund in 2014?

No. Even after NCUA makes a sizable Treasury repayment with settlement funds, there will still be several billion dollars in outstanding borrowings to the U.S. Treasury related to the corporate system resolution program. The Treasury debt must be fully repaid before any remaining funds



on hand would be distributed to credit unions. This is not likely to occur prior to expiration of the Stabilization Fund in 2021.

It is also important to note that the assessment range is generated using projected legacy asset cash flows. NCUA expects to receive these legacy asset cash flows over time, but they have not been realized and could vary significantly from our projections.

Q7. What is the Stabilization Fund assessment range for 2014? When will we know the exact amount for 2014? What is the timetable?

In November 2013, the NCUA Board announced that in light of the recent legal settlement and the continued strong performance of the legacy assets underlying the NGN portfolio, there is no Stabilization Fund assessment range for 2014. Notwithstanding a major, unexpected development in 2014, such as a severe economic downturn, the assessment is expected to be zero for 2014. However, should adverse conditions develop, the NCUA Board may have to impose an assessment.

The Board is expected to set the actual amount of the assessment in July 2014. The timetable has generally worked as follows: the Board determines the assessment range in November of the preceding year, announces the exact assessment amount the following July, bills for the assessment in August, and collects the assessment in October. Future NCUA Boards can change this timetable at their discretion.

Q8. How many more years will federally insured credit unions have to pay Stabilization Fund assessments?

The pace of remaining assessments is up to the NCUA Board. Proceeds from future assessments will primarily be used to pay down NCUA's borrowings from the U.S. Treasury related to the corporate system resolution program. Each year, when setting the annual Stabilization Fund assessment, the Board will determine how to manage the assessments over time, weighing public policy considerations, interest payments to the Treasury, legal recoveries, and credit union performance, among other factors. By law, the Stabilization Fund will expire in 2021, so no assessments can occur beyond that date. However, the assessments could end before 2021.

Q9. Why does NCUA need to borrow from the U.S. Treasury for the Stabilization Fund? How will the remaining borrowings be repaid?

NCUA can and has used funds borrowed from the U.S. Treasury to manage the costs of the corporate system resolution program. These costs are driven by losses on the legacy assets, management and disposal of other assets acquired in liquidation, bridge corporate transition expenses, interest on borrowings, expenses associated with monitoring the re-securitized legacy assets, and other liquidation costs.

NCUA's corporate system resolution program ensures there is no loss to the taxpayer; all losses are and will be borne by federally insured credit unions. Therefore, in order to repay the Treasury borrowings, which stand at \$3.9 billion as of November 2013, NCUA may use:



- periodic credit union assessments,
- proceeds from the sale of remaining assets of the failed corporates,
- legal recoveries, and
- any residual value remaining from the legacy assets collateralizing the NGNs, which will not be available until the NGNs mature.

Following the November 2013 repayment of approximately \$0.8 billion, NCUA owes \$3.9 billion to the U.S. Treasury at an adjustable interest rate (currently 0.157 percent) tied to the 1-year Treasury rate. For a complete history of Treasury borrowings, repayments, and associated interest expense, visit this website location:

Corporate System Resolution Costs – Borrowing Costs
<http://www.ncua.gov/Resources/Corps/RCost/Pages/BorrowCost.aspx>

Q10. How will lawsuits NCUA has filed against Wall Street firms and any related settlements or recoveries affect the Stabilization Fund and credit union assessments?

The impact depends on the nature of the settlement. If settlement proceeds are received by the legacy asset trusts, they will be distributed to individual bond-level certificate holders as specified by deal documents. In this situation, the cash flows from the legacy assets will increase, but the value received will not necessarily be dollar for dollar.

If settlement proceeds are received by NCUA, they will directly reduce the net amount NCUA is required to assess credit unions. However, settlement proceeds received by NCUA are first used to repay Treasury borrowings and any other obligations of the Stabilization Fund. Thus, they do not necessarily accelerate the timing of potential refunds.

Through the end of October 2013, NCUA had received more than \$0.3 billion in recoveries through pursuit of legal claims against securities underwriters. In November 2013, NCUA announced an additional \$1.417 billion legal settlement from JPMorgan Chase, bringing the total legal recoveries to more than \$1.75 billion.

Q11. How often will NCUA update the actual losses and future projections? Where can I find these updates?

NCUA posts updates on the NCUA website twice per year, by April 30 and November 30. For updates and more detailed information, visit these website locations:

Corporate System Resolution Costs
<http://www.ncua.gov/Resources/Corps/RCost/Pages/default.aspx>

NGN Program Information
<http://www.ncua.gov/Resources/Corps/NGN/Pages/default.aspx>